

Senate Budget and Fiscal Review
SUBCOMMITTEE NO. 1

EDUCATION
Jack Scott, Chair
John Vasconcellos
Bob Margett

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I. INTERSEGMENTAL ISSUES

A. ENROLLMENT GROWTH.

GOVERNOR'S BUDGET PROPOSAL. The Governor's 2004-05 Budget provides no new funding to support enrollment growth at the University of California (UC) or California State University (CSU). At the California Community Colleges (CCC), the Governor's Budget provides \$121 million to support an approximately 33,000 additional full-time equivalent students (FTES), or 3 percent growth.

UC and CSU: As part of the final 2003-04 budget negotiations, the Legislature passed, and the Governor signed into law, Assembly Bill 1756 (Chapter 228, Statutes of 2003), which stated:

"It is the Legislature's intent that, in assisting the Governor in preparing the State Budget for the 2004-05 fiscal year, the Department of Finance not include any proposed funding for the following:

(g) Enrollment growth at the University of California or the California State University."

Following this directive, the Governor's Budget does not provide the funding that would on the natural be necessary to accommodate approximately four percent growth in enrollments at both UC and CSU. As a result, the UC and CSU systems have taken steps to "manage" – and thus decrease – student enrollments. At the CSU for example, this has meant establishing application deadlines (whereas in the past applications were accepted year-round) and tightening the admissions requirements on community college transfer students.

For the 2004-05 budget, the Governor proposes to hold constant the number of funded FTES (with the exception of the 7,000 students he intends to redirect to the community colleges). Combined with the redirection, enrollments are budgeted at 199,428 FTES for UC and approximately 340,000 FTES at the CSU.

In addition to the constraints on enrollment growth funding, both systems made internal decisions in the current-year to redirect funding originally provided for enrollment growth to cover unexpected mid-year funding reductions. In addition, knowing that the Administration and Legislature would not provide funding for enrollment growth in 2004-05, many campuses exercised extreme caution in enrolling students – with particular attention paid to not "over-enrolling" – such that they fell short of their enrollment targets.

At the UC for example, systemwide enrollments are 800 FTE below the level funded in the current year due to a combination of the above-noted factors. At the CSU, student enrollments are approximately 9,000 less than originally budgeted. In this case, CSU

made a decision to absorb last-minute (2003-04 Budget Act) and mid-year reductions by limiting student enrollment in favor of retaining a solid base academic and support services budget.

For 2004-05, this issue becomes important because the enrollment projections in the Governor's Budget are based on the number of students CSU is serving in the current year (9,000 students less than they're budgeted for) as opposed to the number of students for which they've received funding.

CCC: The Governor's 2004-05 Budget provides \$121 million in Proposition 98 General Fund to serve an additional 3 percent (or 33,120) full-time equivalent students (FTES) at the California Community Colleges. The amount of funding provided in the Governor's Budget for enrollment growth exceeds the amount required by statute which is only 1.8 percent.

Over-enrolled in Current Year. In the current year, many local colleges are over-enrolled, meaning that the number of students enrolled exceeds the number of students for which the college receives state funding (known as being "over cap"). According to the Chancellor's Office, the number of over-enrolled students systemwide is likely to be between 15,000 and 20,000 FTES (1.4 percent to 1.8 percent).

Factors Contributing to Enrollment Growth. There are many different factors that will contribute to how many students attempt and/or choose to enroll at a community college in the coming year. The Chancellor's office offers that, on the natural, enrollments would grow at approximately 4 percent a year. *Staff notes*, it becomes difficult to predict how many students will seek an education from the community colleges when natural enrollment growth is combined with such factors as student fee increases (at all public postsecondary institutions); the availability of financial aid at both public and private institutions; a tightening of the admissions requirements for CCC transfer students to UC and CSU; the ability for students to get courses; the changing demographics of the state; and a changing economy.

Staff notes that, if funding for enrollment growth is provided at the proposed 3 percent level, much of it will be "eaten up" by the current "over-cap" enrollments as well as the Governor's new Dual Admissions program (to be discussed below). These two factors combined would leave less than one-half of one percent (.05%) growth for the traditional community college student population. For clarification, under the Governor's Dual Admissions proposal, the community colleges do not receive additional state funding to support the approximately 7,000 new freshman that would be redirected from the UC and CSU; rather the community colleges would be expected to absorb the additional FTES within the 3 percent growth allocation proposed in the Governor's Budget.

Please note: Various community college constituencies have expressed concern that much of the community college enrollment growth will come from UC and/or CSU-eligible students who are either redirected under the Dual Admissions Program or are self-redirecting to the community colleges because it's cheaper, more convenient, and holds the promise of providing the necessary courses. As a result, these constituencies fear that the "native" community college student population will be squeezed out of courses and services by the more academically "sophisticated" UC and CSU eligible student.

LEGISLATIVE ANALYST. In response to the financial limits placed on funding enrollment growth at the UC and the CSU, the Legislative Analyst contends that the UC and CSU already have sufficient funding within their base budgets to accommodate additional enrollment growth. Given that the LAO finds that UC is "under-enrolled" by approximately 800 FTES and CSU by approximately 9,000 FTES in the current year, it believes that the purposes for which the dollars were redirected were in many instances one-time, thus freeing up those dollars for either enrollment growth in 2004-05 or for other purposes.

B. DUAL ADMISSIONS PROGRAM.

GOVERNOR'S BUDGET PROPOSAL. The Governor's 2004-05 Budget proposes to redirect 10 percent (7,000 FTES) of the incoming freshmen class at UC and CSU to the community colleges under a new Dual Admissions Program. The Administration proposes establishing this Dual Admissions program in statute (thus creating a mandate for the CSU and the Community Colleges). The bill carrying this proposal (Assembly Bill 2833, Plescia) will be addressed via the policy committee process.

As a result of this redirection, the Governor assumes -- and captures -- \$45.9 million in General Fund savings (\$24.8 million from UC and \$21.1 million from CSU). Under this proposal, individual UC and CSU campuses would make admissions offers to eligible students, contingent upon them completing their lower-division, transfer coursework at a community college. The Governor proposes to provide a further incentive for students to take advantage of the Dual Admissions offer by waiving the student's fees while they are at the community colleges.

The intent of this proposal is to encourage students to take advantage of the community colleges, thereby saving the state General Fund monies during their first two years of postsecondary education. Offsetting the proposed savings, the Governor provides an augmentation of \$1.6 and \$1.9 million to the UC and CSU respectively in order to provide transfer and support services to that cohort of students.

Staff notes that with the proposed elimination of student outreach services at both the UC and CSU, funding which in the past was available to provide support services to community college students, would no longer be available. This makes the issue of how transfer support for these students will be provided, all the more pressing.

Staff notes, this proposal raises several questions, including (1) how students will be chosen to participate and (2) whether or not students will avail themselves of this program. For example, both UC and CSU intend to make Dual Admissions “offers” to all otherwise eligible students that are not accepted to a campus. At UC, this equates to making offers to over 7,000 students (who would otherwise be denied admission) with the hope that approximately 50 percent or 3,200 hundred students accept. *Staff notes*, at the UC and selective CSU campuses, students are highly qualified and are likely seeking a “residential” experience. As a result, they may instead seek educational opportunities elsewhere (private and out-of-state colleges) rather than attend their local community college. Further, it remains unclear if community college enrollments will increase by the full 7,000 students as budgeted under this proposal. But, *staff notes* that under the Governor’s proposal, it is safe to assume UC and CSU will have 7,000 fewer students.

LEGISLATIVE ANALYST. In response to the Governor’s Dual Admissions proposal, the LAO concurs with the need to redirect eligible UC and CSU freshman to the community colleges, but argues that the redirection should be voluntary. The LAO believes that an incentive of being accepted at the UC or CSU campus of their choice in two years, should provide enough encouragement for students to avail themselves of the Dual Admissions offer.

The LAO further recommends that the Legislature deny the Governor’s proposal to waive CCC fees for the redirected students, instead charging them the same fee level as regularly enrolled CCC students. *Staff concurs with this recommendation* and notes that, on the natural, there is a built in fiscal incentive for choosing a community college over a four-year institution, since the cost of attendance at a community college is already far less than the costs of attending a UC or CSU. Further, waiving the fees for a select group of students, regardless of financial need, creates an inequity amongst the student population and creates an administrative burden which could be avoided by charging the students approximately \$650 per year (based on 25 units) compared to a cost of \$6,028 and \$2,776 per year at UC and CSU respectively. *Staff notes* that under the Board of Governor’s (BOG) fee waiver program, financially-needy students will be exempted from paying fees.

STAFF RECOMMENDATION. *Staff recommends that the committee reject the portion of the Governor’s proposal that would waive fees for Dual Admission Students, thus reducing the amount of General Fund (\$3.4 million) appropriated to the Community Colleges to cover the fee waiver (Note: the colleges would be held harmless since the funds would now be coming from student fees). Further, staff recommends that the remainder of this proposal be held open pending legislation.*

II. COMMUNITY COLLEGES

A. OVERVIEW

GOVERNOR'S BUDGET PROPOSAL. The Governor's K-14 education budget – as it was released in January – reflects an “agreement” between the K-12 education community and the Administration regarding both the level and the use of Proposition 98 funding. While the community colleges were not party to the negotiations, they were affected by the outcome. Specifically, the agreement with regard to the community colleges included the:

- (1) “Rebasing” (suspension) of the minimum Proposition 98 funding guarantee in 2004-05, to a level \$2 billion below the otherwise legally-guaranteed level; and
- (2) Funding for Enrollment Growth.

While the Governor's budget also proposes to consolidate funding for various categorical programs; provide funding for general apportionment equalization; and provide growth for enrollment in noncredit courses, it is unclear whether these additional budget components were also part of the Administration's “deal”.

REVISED GOVERNOR'S BUDGET PROPOSAL. Since releasing the budget in January, the Administration has been in the process of re-negotiating the above-noted funding agreement with the K-12 education community. *Of particular interest* is a reduction in the amount of funding proposed for equalization (from \$80 million to \$59.8 million) and a shift of approximately \$65 million from K-12 to the community colleges. This \$65 million will be used to help cover a 1.84 percent COLA for general apportionments as well as five select categorical programs (Matriculation, Basic Skills, DSPS, CARE, and EOPS) programs and enrollment growth (at 1.83 percent) for the five above-noted categorical programs. The education community contends that funding for COLA and categorical program growth was part of the original December budget agreement but was inadvertently omitted from the Governor's January proposal.

B. EQUALIZATION

GOVERNOR'S BUDGET PROPOSAL. The Governor's January Budget originally proposed to provide \$80 million to address disparities in base apportionment funding among the Community Colleges districts; this proposal has since been revised to \$59.8 million. Currently, funding per FTES varies from about \$3,541 to \$8,192, with the statewide average being about \$3,800. Under the Governor's proposal, funding would be allocated out to districts pursuant to legislation (to be addressed through the policy committee process). Specifically, the Governor's proposal mirrors the K-12 equalization proposal by striving to equalize funding for districts up to a level equivalent to the 90th percentile.

LEGISLATIVE ANALYST. While generally supportive of equalizing the funding disparities between community college districts, the LAO recommends that the Governor's proposal be denied and that the funds instead be used to pay for existing Proposition 98 obligations such as funding state mandates or reducing the amount of General Apportionment dollars that are deferred until July 1, 2005.

STAFF RECOMMENDATION. Regardless of the committee's decision to provide funding for equalization, staff recommends that Provision 6 of Item 6870-101-0001, be stricken from the Budget Bill. This language is duplicative of the funding methodology proposal that is currently making its way through the policy committee process. By deleting the Budget Bill provision, the Legislature will avoid any future conflicts between the Budget Bill and the pending statutory changes.

C. ELIMINATION OF SELECT CATEGORICAL PROGRAMS

GOVERNOR'S BUDGET PROPOSAL. The Governor's Budget proposes to eliminate funding for two smaller categorical programs: The Teacher and Reading Development Partnership Programs (\$3.7 million) and the Fund for Instructional Improvement (\$312,000); the Governor then redirects this \$4 million in savings to provide funding for approximately 1,900 (1.95 percent) new FTES in noncredit instructional programs. In order to receive these funds, districts would need to enroll additional noncredit students (as opposed to increasing the rate per student).

While it's still too early to determine exact enrollment counts for the 2003-04 academic year, in 2002-03 the community colleges only had 2,651 unfunded noncredit FTES, the bulk of which (1,600 FTES) were in the Los Angeles Community College District.

By way of background, noncredit courses, like the adult education courses offered in the K-12 schools, are aimed at providing students with the various "life skills". The state provides funding (\$2,242 per student to K-12 schools and \$2,113 to community colleges) for the following noncredit education courses: Basic Skills; English as a Second Language; Immigrant Education (Citizenship); courses for disabled students; short-term vocational programs; Parenting; Health and Safety; Home Economics and courses for older adults. These courses are not collegiate-level courses. Students receive no college credit and generally do not pay fees.

LEGISLATIVE ANALYST. The LAO notes that providing a special appropriation for growth in noncredit instruction represents a departure of longstanding practice and lacks justification. Specifically, the LAO notes that under current law, community college districts receive enrollment growth funding (as discussed earlier in this hearing) that can be used for both credit and/or noncredit students.

STAFF RECOMMENDATION. No issues have been raised with the elimination of the two categorical programs, and staff recommends that the reduction be made, but that the

redirection of the funds be held open pending the May Revision and an assessment of other funding priorities.

As an additional note, if the Legislature wishes to provide more support for noncredit instruction, it may instead wish to consider increasing the rate at which noncredit instruction is funded to provide more parity in the funding rates for community college noncredit courses and K-12 adult education courses. Using the same redirected \$4 million, the rate would increase from approximately \$2,113.66 to \$2,154.92 – which is \$87.20 below the amount provided to K-12 school districts for the same services (as opposed to the current \$128 per FTE gap).

D. CATEGORICAL PROGRAM CONSOLIDATION

GOVERNOR’S BUDGET PROPOSAL. The Governor’s Budget proposes to “roll” the funding for several categorical programs into the base General Apportionments line of the budget and consolidate funding for several others.

1. Programs “rolled” into the Base Budget: Specifically, the Administration proposes to disband the budget lines and funding requirements for the following programs and consolidate the funding into the general base budgets of the colleges: (1) Partnership for Excellence; (2) Matriculation; (3) Part-Time Faculty Health Insurance; (4) Part-Time Faculty Compensation; (5) Part-Time Faculty Office Hours and (6) about half of the Telecommunications and Technology Infrastructure Program.

Governor's Categorical Reform Proposal		
<i>General Fund (In Millions)^a</i>		
Program Consolidations	2003-04	2004-05
General Apportionments		
Base general apportionments	\$1,589.1	\$1,939.9
Partnership for Excellence	225.0	--
Matriculation	54.3	--
Part-time faculty compensation	50.8	--
Part-time faculty office hours	7.2	--
Part-time faculty health insurance	1.0	--
TTIP ^b	12.5	--
Totals	\$1,939.9	\$1,939.9
^a Includes costs whose payments are deferred to subsequent fiscal year. ^b Telecommunications and Technology Infrastructure Program. Current-year funding of \$22.1 million is split in budget year between general apportionments and new Telecommunication and Technology Services category.		

Under this proposal, the Administration introduced legislation (to be addressed through the policy committee process) which would essentially render the above-noted programs voluntary, cease the state's obligation to provide additional funding for the programs, and require districts accepting the money to comply with a series of specified outcomes (including: increasing the number of transfer students, degrees and certificates awarded, course completion, workforce development and basic skills).

LEGISLATIVE ANALYST. Over the years, the LAO has been supportive of providing programmatic and fiscal flexibility, and in this instance finds that consolidating these six programs into the "base" generally makes sense given that all districts share the general-purpose goals of the program. However, the LAO recommends that the Legislature clarify its outcome expectations and establish clear consequences for failing to meet those outcomes.

STAFF RECOMMENDATION. *Staff recommends that the committee approve the portion of the proposal which would move the Partnership for Excellence program (which are essentially general purpose monies) into the base general apportionment budget, pending legislation to make the funding mechanisms in the program inoperative and/or establish a replacement set of outcome or accountability criteria.*

Historically, categorical programs were established in order to ensure that a specified set of dollars were allocated and spent for a specific purpose. If the Legislature is comfortable disbanding the above-noted categorical programs and feels that the purposes for which they were developed have been met, then the policy committee bill will reflect that decision. As a result, *staff recommends that the committee deny the proposals to merge the part-time faculty, matriculation and technology programs into the base budget, pending legislation to the contrary.*

Further, staff recommends that the committee delete provisional language (Item 6870-101-0001, Provision 4), which essentially replicates the Administration's statutory proposal to consolidate the various categorical programs.

2. Programs "consolidated" into broader groupings: In addition to the above proposal, the Administration suggests collapsing several categorical programs into broader categories, ostensibly in order to provide districts with additional flexibility. Specifically, the Governor consolidates as follows:

Governor's Categorical Reform Proposal		
<i>General Fund (In Millions)^a</i>		
Program Consolidations	2003-04	2004-05
Telecommunication and Technology Services		\$10.9
TTIP ^b	\$9.6	--
California Virtual University	1.3	--
Totals	\$10.9	\$10.9
Targeted Student Services		\$101.1
Extended Opportunity Programs and Services	82.7	--
CARE	12.2	--
Puente Project	1.9	--
MESA	2.5	--
Middle College High School Program	1.8	--
Totals	\$101.1	\$101.1
Physical Plant and Institutional Support		\$29.3
Maintenance, repairs, equipment, and library materials	\$24.9	--
Hazardous substances	4.4	--
Totals	\$29.3	\$29.3

LEGISLATIVE ANALYST. The LAO notes that at least several of the newly proposed categorical grouping are logical and generally has supported grouping together the funding for similar types of programs. However, the LAO notes that with this particular part of the proposal, the “consolidations” are largely symbolic and, due to the Administration’s retention of provisional language which still requires a specified level of support be spent on the specific programs, do little to foster local district flexibility. Further, the LAO notes that, in prior years it has recommended a series of “block grants” which would serve a similar purpose.

STAFF RECOMMENDATION. *Staff recommends that the committee approve the Governor’s proposal to establish the Physical Plant and Institutional Support line item, thus merging funds for the two programs. In order to allow districts true flexibility, staff further recommends that the committee delete the provisional language proposed by the Department of Finance (DOF) and instead work with the LAO and DOF to determine more appropriate provisional language for the newly combined item.*

III. COMMUNITY COLLEGES CHANCELLOR’S OFFICE

GOVERNOR’S BUDGET PROPOSAL. The Governor’s January Budget proposes to retain the revised current-year funding level for the Community Colleges Chancellor’s Office. Specifically, the Governor proposes a total of 144.2 Personal Years and \$16.8 million (\$8.6

million General Fund) to support the Chancellor's Office operations for 2004-05. The bulk of the reductions to the Chancellor's Office occurred within the last two years when support was reduced by approximately 50 PYs and over \$2.3 million General Fund (from \$10.9 million General Fund to \$8.6 million). These reductions resulted in employee layoffs and a substantial reduction in services.

State support for the Chancellor's Office has been on the decline since 2001-02, when General Fund support exceeded \$13.3 million. The Chancellor's Office contends that since the budget crisis began, their support budget has been disproportionately impacted, citing a 33.8 percent reduction since 2001-02.

Request for Chancellor's Initiative Fund. The Community College Chancellor's Office is requesting an augmentation of \$300,00 to provide transition-related funding for the incoming Chancellor. Specifically, the funds are proposed to be used to: (1) establish an orientation program for new Board of Governor's Members; (2) undertake regular regional meetings with local college CEO's and trustees; (3) finalize, publish and implement the independently-funded review of the Chancellor's Office operations; and (4) represent the colleges at the federal level.

STAFF /LAO RECOMMENDATION. *The LAO raises no issues with the support budget of the Chancellor's Office; as a result, staff recommends that this item be "Approved as Budgeted" with the Chancellor's Initiative Fund being placed on the "Checklist" pending the Governor's May Revision.*

Proposed Consent

Staff recommends that the following items be Approved as Budgeted.

- 6440-001-0046. Support, University of California Institute of Transportation Studies \$980,000
- 6440-001-0007. Support, University of California Breast Cancer Research \$14,920,000
- 6440-001-0234. Support, University of California Cigarette and Tobacco Products Surtax Fund, Research Account \$14,253,000
- 6440-001-0308. Support, University of California Earthquake Risk Reduction Fund \$1,500,000
- 6440-001-0321. Support, University of California Oil Spill Response Trust Fund \$1,300,000
- 6440-001-0814. Support, University of California State Lottery Education Fund \$23,612,000
- 6440-001-0890. Support, University of California Federal Trust Fund – GEAR UP - \$5,000,000
- 6440-001-0945. Support, University of California California Breast Cancer Research \$927,000
- 6440-002-0001. Support, University of California Prior year deferral of expenditures (\$55,000,000)
- 6440-003-0001. Support, University of California Lease-Revenue Debt Service \$138,183,000
- 6440-011-0042. Support, University of California Payable from State Highway Account for Earthquake Risk Reduction (\$1,000,000)
- 6610-001-0890. Support, California State University Federal Trust Fund \$41,739,000
- 6610-003-0001. Support, University of California Lease-Revenue Debt Service \$61,595,000
- 6870-101-0814. Local Assistance, California Community Colleges State Lottery Education Fund \$140,922,000
- 6870-101-0925. Local Assistance, California Community Colleges California Business Resources and Assistance Innovation Network Fund \$15,000
- 6870-101-0959. Local Assistance, California Community Colleges Foster Children and Parent Training Fund \$2,379,000
- 6870-103-0001. Local Assistance, California Community Colleges Lease-Revenue Debt Service \$57,381,000
- 6870-111-0001. Local Assistance, California Community Colleges CalWORKS, Americorps, Vocational Education, Foster Parent Training. \$0